

# **REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON MUTALE LOCAL MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I was engaged to audit the financial statements of the Mutale Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statements of financial performance, changes in net assets and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### **Basis for disclaimer of opinion**

#### **Property, plant and equipment**

4. I was unable to obtain sufficient appropriate audit evidence on the difference of R2 996 660 between the fixed asset register and property, plant and equipment of R73 656 535 (2012: R63 414 728) as disclosed in the statement of financial position. In addition, there were also noted differences of R4 656 588 (2012: R653 237) between the general ledger and note 6 to the financial statements. I was unable to confirm these differences by alternative means. Consequently I was unable to determine whether any adjustments to property, plant and equipment in the financial statements were necessary.
5. The municipality did not review the useful lives of all classes of assets within property, plant and equipment at each reporting date in accordance with Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. I have not determined the correct net carrying amount of property, plant and equipment in the financial statements and the consequential impact on the surplus for the period and the accumulated surplus as it was impractical to do so.
6. Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*, requires that a municipality depreciate separately, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item. A sports facility with a carrying value of R1 200 000 included in the financial statements, was not depreciated in terms of the above requirement. I have not determined the correct net carrying amount as it was impractical to do so.

7. Land owned by municipality was not recorded in the accounting records of the municipality for the current and prior financial years. Furthermore, I identified other movable assets which were not recorded in the accounting records of the municipality. The municipality did not maintain adequate systems to identify and maintain records of all property, plant and equipment. Consequently I was not able to determine the full extent of the understatement in property, plant and equipment stated at R73 656 535 in the statement of financial position as it was impracticable to do so.
8. The municipality accounted for a sports facility with carrying value of R532 989 (2012: R337 719) which is situated in an area outside the jurisdiction of the municipality. As a result of this and other matters reported in the preceding paragraphs, I am unable to determine the net effect on property, plant and equipment and the consequential impact on the surplus for the period and accumulated surplus.
9. In the 2011-12 financial year, I was unable to obtain sufficient appropriate audit evidence on property, plant and equipment with a carrying value of R63 414 728. The municipality did not address the matters on property, plant and equipment reported on in the prior year audit. Consequently, I was unable to determine whether any adjustments relating to property, plant and equipment in the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of these matters on the comparability of the current period's figures.

#### **Leases**

10. Standard of Generally Recognised Accounting Practice, GRAP 13, *Leases* requires a lease to be classified as a finance lease if it transfers substantially all risk and rewards incidental to ownership. The municipality is a party to a lease agreement that constitutes a finance lease, but which has been accounted for as an operating lease. As the municipality did not maintain adequate systems for the recording of leases, I was unable to determine the extent of the adjustments required to be made to property, plant and equipment, and the consequential impact on surplus for the period and accumulated surplus.

#### **Provisions**

11. The municipality does not have an accounting policy in place setting out the basis and principles for the recognition and measurement of long service awards provision as required by Standard of Generally Recognised Accounting Practice, GRAP3, *Accounting policies, changes in accounting estimates and errors*. I was unable to confirm long service awards by alternative means. Consequently, I was unable to determine whether any adjustments to long service awards stated at R1 723 000 in note 12 to the financial statements were necessary.
12. I was unable to obtain sufficient appropriate audit evidence on the legality of the site used by the municipality for dumping refuse. Consequently I was unable to determine whether any provision as required by Standard of Generally Recognised Accounting Practice, GRAP 19, *Provisions, contingent liabilities and contingent assets* was necessary.

#### **Provision for doubtful debts**

13. The municipality did not assess whether objective evidence of impairment exists individually for receivables that are individually significant, as required by Standard of Generally Recognised Accounting Practice, GRAP 104, *Financial Instruments*. I have not determined the correct amount of the impairment as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to trade and other receivables from exchange transactions and receivables from non-exchange

transactions stated at R1 716 238 and R8 129 620, respectively, in the financial statements were necessary.

#### **Receivables from non-exchange transactions**

14. The municipality recognised a receivable for an amount withheld by National Treasury for conditional grants not utilised in 2011. There is no indication that National Treasury will transfer the amount that was withheld back to the municipality. Consequently, receivables from non-exchange transactions is overstated by R900 000 (2012: R900 000) and accumulated surpluses overstated by the same amount.

#### **Receivables from exchange transactions**

15. The municipality levied property rates on public service infrastructure in contravention with section 7(2)(a)(ii) of the Municipal Property Rates Act (MPRA), 2004 (Act No. 6 of 2004). Consequently, receivables from property rates overstated by R4 105 528 (2012: R3 802 323), revenue overstated by R303 205 (2012: R289 123) and accumulated surpluses overstated by the same amount.
16. With reference to the preceding paragraph, the municipality also recognised interest income of R575 392 (2012: R1 153 184) in the financial statements on amounts owed to the municipality on public service infrastructure. I could not reliably determine the interest amount that should be recognised in the accounting records of the local municipality due to limitations on the municipality's recording keeping system. Consequently, I was unable to quantify the value of the adjustments required to interest income in the statement of financial performance.

#### **Payable from exchange transactions**

17. I was unable to obtain sufficient appropriate audit evidence to confirm suspense accounts with a debit balance of R914 583 included in payables from exchange transactions of R6 351 048 as disclosed in note 9 to the financial statements. I was unable to confirm the suspense accounts by alternative means. Consequently I was unable to determine whether any further adjustments to payables from exchange transactions in the financial statements were necessary.
18. Trade and other receivables from exchange transactions amounting to R914 583 was offset against trade and other payables from exchange transactions, contrary to the requirements of Standard of Generally Recognised Accounting Practice, GRAP 1, *Presentation of financial statements*. Consequently, payables from exchange transactions are understated by R914 583 (2012: R1 385 727) and receivables from non-exchange transactions are understated by the same amount.
19. During 2012, the municipality did not record all other goods and services received but not yet paid for, which resulted in accruals being understated by R2 047 571. In addition, due to an inadequate system in place for managing accruals, there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all accruals were properly recorded. Consequently, I was unable to determine whether any further adjustments to accounts payable stated at R19 237 156 in financial statements were necessary. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
20. During 2012 the municipality did not record all retentions on infrastructure assets, which resulted in retentions being understated by R958 846. Consequently, retentions are understated by R958 846 and infrastructure assets are understated by the same amount. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current

period's figures.

### **Statement of changes in net assets**

21. The municipality disclosed an amount of R3 689 984 in the statement of changes in net assets to rectify prior year misstatements which does not agree to note 33 to the financial statements. Furthermore, there is a difference of R12 363 008 between the audited closing balance for the 2011-12 financial year and the restated opening balance for accumulated surplus. I was unable to obtain sufficient appropriate audit evidence for the differences. I was unable to confirm the differences by alternative means. Consequently, I was unable to determine whether any adjustments to the accumulated surplus were necessary.
22. I was unable to obtain sufficient appropriate audit evidence on the write off of prior year receivable balance related to water transactions which were transferred to Vhembe District Municipality amounting to R2 734 046. I was unable to confirm this write-off by alternative means. Consequently, I was unable to determine whether any adjustments to the accumulated surplus were necessary.
23. During 2012, the municipality processed an adjustment to correct prior period errors. The amount of the adjustment against accumulated surplus in the prior year was R1 607 663. This error was not corrected retrospectively in accordance with Standards of Generally Recognised Accounting Practice, GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. Furthermore, the municipality did not restate the prior year comparative amounts disclosed in the financial statements for trade and other payables (R1 184 905), other income (R2 569 571), trade and other receivables (R222 997) balances and investment property and did not adequately disclose the effects of the adjustment in note 33 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of these matters on the comparability of the current period's figures.

### **Revenue**

24. I was unable to obtain sufficient appropriate audit evidence on the difference of R690 122 between the prior year financial statements and the current year comparative figure for revenue from exchange transactions. In addition, the municipality did not disclose the nature of the restatement as required by Standards of Generally Recognised Accounting Practice, GRAP 3, *Accounting policies, changes in accounting estimates and errors*. I was unable to confirm the restatement by alternative means. Consequently I was unable to determine whether any adjustment to the revenue from exchange transactions of the corresponding figure stated to the amount in the financial statements was necessary.

### **Depreciation**

25. I was unable to obtain sufficient appropriate audit evidence on a difference of R541 830 between depreciation disclosed in the statement of financial performance and note 6 to the financial statements. Consequently I was unable to determine whether any adjustments to depreciation stated at R2 127 156 in the statement of financial performance and property, plant and equipment stated at R73 656 535 in the statement of financial position, was necessary.

### **Irregular expenditure**

26. The municipality made payments in contravention of the supply chain management requirements which were not included in irregular expenditure, resulting in irregular expenditure being understated by R737 062.
27. The municipal council condoned irregular expenditure in contravention of the MFMA

section 170, resulting in irregular expenditure being understated by R5 663 693 (2012: R12 561 554).

### **Fruitless and wasteful expenditure**

28. Due to inadequate implementation of processes to identify, record and report on fruitless and wasteful expenditure. I was unable to obtain sufficient and appropriate audit evidence to satisfy myself that the fruitless and wasteful expenditure amounting to R24 877 (2012: R76 287), as disclosed in note 34 to the financial statements is complete. Furthermore, the municipal council condoned fruitless and wasteful expenditure as disclosed in note 34 of the financial statements amounting to R2 110 313 (2012: R270 831) in contravention of section 170 of the MFMA.

### **Commitments**

29. We identified in note 36 to the financial statements that commitments were overstated by an amount of R2 516 070, as the municipality did not maintain adequate systems for recording of commitments. I was unable to determine the extent of the adjustments required for commitments.
30. During 2012, no contract management system was in place for the identification and recognition of contracts and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all commitments were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that commitments of R39 548 828 as stated in note 36 to the financial statements, are complete. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Contingent liability**

31. The municipality has not disclosed a contingent liability in note 38 to the financial statements in respect of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement. I was unable to confirm the contingent liability by alternate means. Consequently, I am unable to determine whether any adjustments to the contingent liability to the financial statements were necessary.

### **Related parties**

32. The municipality is occupying an office building owned by Vhembe District Municipality for which no rent is paid. The municipality did not disclose the transaction as related party in accordance International Public Sector Accounting Standard, IPSAS 20, *Related party disclosures*.

### **Cash flow statement**

33. Standard of Generally Recognised Accounting Practice, GRAP 2, *Cash flow statements* requires that the municipality summaries the entity's operating, investing and financing activities. I was unable to confirm whether the cash flow statement and the related notes are fairly stated due to the material effect of the scope limitation and identified misstatements as reported in this report.

### **Statement of comparison of budget and actual amounts**

34. Standard of Generally Recognised Accounting Practice, GRAP 24 *Presentation of Budget Information in Financial Statements* requires that the municipality present a comparison of the budget amounts for which it is held publicly accountable and actual amounts. Furthermore, GRAP 24 requires that the municipality explain the differences between actual amount and budgeted amounts. A difference of R21 523 000 between actual grants received and budgeted was not explained.

### **Aggregation of immaterial uncorrected misstatements**

35. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position:

- Trade and other receivables from non- exchange transaction reflected at R8 129 620 is understated by R85 670.
- Value-added-tax (VAT) receivable reflected at R10 382 489 is overstated by R25 208.
- Investment property reflected at R2 350 000 is overstated by R350 000 and accumulated surplus is understated by the same amount.
- Consumer desposits reflected at R213 434 is overstated by R185 816.

In addition, I was unable to obtain sufficient appropriate audit evidence and was unable to confirm the following elements by alternative means:

- Cash and cash equivalent of R11 753 as included in the disclosed balance of R20 368 910.
- Intangible assets of R253 673 as included in the financial statements of R253 673.
- The comparative figure of revenue from non exchange transaction was restated by R289 999.

As a result, I was unable to determine whether any further adjustments to these elements were necessary.

### **Preparation of the financial statements**

36. I was unable to obtain sufficient appropriate audit evidence that the accounting officer fulfilled his responsibility for the preparation and fair presentation of the financial statements in accordance with Standard of Generally Recognised Accounting Practice as written representation in this respect was not provided. I was also unable to obtain written representation from the accounting officer that I was provided with all relevant information and access as agreed in terms of the audit engagement and that all transactions had been recorded and are reflected in the financial statements. I could not determine the effect of the lack of such representations on the financial position of the municipality at 30 June 2013, or the financial performance and cash flows for the year then ended.

### **Disclaimer of opinion**

37. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

### **Emphasis of matters**

38. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

39. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

### **Material underspending of the conditional grant**

40. As disclosed in note 13 to the financial statement, the municipality under spent on national lottery grant R1 227 722, disaster grant of R24 642 977, operational and maintenance grant of R6 698 025. As a consequence, the municipality has not achieved its objectives of providing services to the community.

### **Additional matters**

41. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited supplementary schedules**

42. The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

### **Withdrawal from the audit engagement**

43. Due to the limitation imposed on the scope of the audit by management, I have disclaimed my opinion on the financial statements. But for the legislated requirement to perform the audit of municipality, I would have withdrawn from the engagement in terms of the ISAs.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

44. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
45. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priority. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information (FMPPI)*.

The reliability of the information in respect of the selected development priority is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

46. The material findings are as follows:

### **Usefulness of information**

#### **Presentation**

#### **Measures taken to improve performance not disclosed**

47. Section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total

of 27% of the planned targets not achieved were not reflected in the annual performance report. This was due to a lack of review of the presentation of the annual performance report by management.

48. Section 46 of the MSA requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 67% measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.

## **Consistency**

### **Reported objective not consistent with planned objectives**

49. The MSA, section 41(c), requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives between planning and reporting documents. A total of 86% of the reported objectives are not consistent with the objectives as per the approved integrated development plan. This was due to a lack of review of the annual performance report by management.

## **Measurability**

### **Performance targets not well defined**

50. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 28% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was not aware of the requirements of the *FMPPI*.

## **Reliability of information**

### **Reported information not reliable**

51. The National Treasury *FMPPI* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
52. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to service delivery. This was due to limitations placed on the scope of my work due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the development priority.

## **Compliance with laws and regulations**

53. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

## **Strategic and performance management**

54. The IDP adopted by the municipality does not reflect and identify a financial plan and the key performance indicators and targets, as required by sections 26 and 41 of the MSA.
55. The municipality did not afford the local community at least 21 days to comment on the



final draft of its integrated development plan before the plan was submitted to council for adoption, as required by Municipal planning and performance management regulation 15(3).

56. Section 46 of the MSA requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 27% of the planned targets not achieved were not reflected in the annual performance report. This was due to a lack of review of the presentation of the annual performance report by management.

#### **Annual financial statements, performance and annual reports**

57. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Furthermore, material misstatements identified by the auditors in the submitted financial statements were not corrected and the supporting records could not be provided, subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
58. The council's oversight report on the 2011-12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.

#### **Procurement and contract management**

59. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).
60. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
61. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
62. Awards were made to providers who are in the service of other state institutions or whose directors are in the service of other state institutions, in contravention of the MFMA section 112(j) and SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

#### **Human resource management and compensation**

63. An acting Municipal manager and CFO were appointed for a period of more than six months, in contravention of section [54A(2A)/56(1)(c)] of the MSA.

#### **Expenditure management**

64. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2) (e) of the MFMA.
65. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and/or accounted for creditors, as required by section 65(2)(b) of the MFMA.
66. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.

#### **Conditional grants**

67. Unspent conditional grant funds not approved by the National Treasury for retention were not surrendered to National Revenue Fund, as required by section 21(1) of the DoRA.

#### **Revenue management**

68. A credit control and debt collection policy was not implemented, as required by section

96(b) of the MSA and section 62(1)(f)(iii) of MFMA.

69. The municipality did not update its valuation roll in accordance with section 23(1) to (5) of the Municipal Property Rates Act.

#### **Assets management**

70. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
71. An effective system of internal control for assets (including a complete and accurate asset register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Liability management**

72. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Consequence management**

73. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
74. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
75. The condoning of irregular expenditure was not approved by the appropriate relevant authority, in accordance with the requirements of section 170 of the MFMA. Authorisation of unauthorised expenditure was not done through an adjustment budget, as required by section 32(2) of the MFMA.

#### **Internal control**

76. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

77. The leadership did not take appropriate action with regard to a lack of controls in the finance and supply chain management units. This, in turn, resulted in irregular, fruitless and wasteful as well as unauthorised expenditure.
78. Leadership did not regularly monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

#### **Financial and performance management**

79. A lack of adequate technical knowledge within management, high level of reliance on consultants with regard to the preparation of the annual financial statements and a lack of adherence to laws and regulations resulted in the opinion received on the submitted annual financial statements and reported performance against predetermined objectives.
80. The municipality did not have a proper system of record management that provides for the maintenance of information that supports the reported performance contained in the annual performance report. This includes information that relates to the collection, collation, verification, storing and reporting of actual performance information.

## **Governance**

81. Management's ineffectiveness in adequately implementing audit recommendations, prevented the governance structures from promoting accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.
82. The municipality did not adequately develop a risk strategy and action plan to manage identified risks. Consequently, internal controls were not selected and developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.
83. The financial statements had material misstatements identified through the audit process, which are attributable to the lack of risk assessment performed, weaknesses in the design and implementation of internal control in respect of financial management, and financial reporting and weaknesses in the information systems.

Polokwane

13 December 2013



**AUDITOR - GENERAL**  
**SOUTH AFRICA**

*Auditing to build public confidence*